

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF BOYNE CITY	County CHARLEVOIX
Audit Date 04-30-04	Opinion Date 07-02-04	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON			
Street Address PO BOX 808		City TRAVERSE CITY	State MI
Accountant Signature <i>Annette Eustice</i>		ZIP 49684	

CITY OF BOYNE CITY, MICHIGAN

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

July 2, 2004

The Honorable Mayor and
Members of the City Commission
City of Boyne City
Charlevoix County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Boyne City, Michigan* (the "City"), as of and for the year ended April 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of April 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparisons of the General, Major Street, Local Street and Fire governmental funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis listed on pages 3-11 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for the purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Nonprofit Organizations and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated, in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Rehmann Lohman

Management's Discussion and Analysis

As City Manager for the City of Boyne City, and head of the City's management team, it is my pleasure to welcome you to this review of our fiscal year ending April 30, 2004. This is the second of our annual financial audits that has incorporated the financial reporting changes called for in the GASB 34 standard. The goal of GASB 34 is to give the reviewer of this document a more balanced picture of the City's assets and liabilities. We hope that you will find that to be the case.

As management of the City of Boyne City, we offer readers of the City of Boyne City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended April 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City's primary government exceeded its liabilities at the close of the most recent fiscal year by \$10,994,343 (net assets). Of this amount, \$2,382,302 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$397,744.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,375,577 a decrease of \$69,081 in comparison with the prior year. Approximately 90.8% of the ending fund balances, or \$1,249,946 is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$770,576, or 25.4% of the total general fund expenditures, not including transfers out.
- The City's total bonded debt not including the component units' activities decreased by \$150,000 during the current fiscal year; new debt of \$1,639,799 for the Drinking Water Revolving Fund was issued.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include the city council, general government, public safety, public works, health and welfare, recreation and culture, and marina. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City (known as the *primary government*), but also two legally separate authorities – the Downtown Development Authority and the Local Development Finance Authority – for which the City is financially accountable. Financial information for these *component units* is reported in the supplementary information to these financial statements.

The government-wide financial statements can be found on pages 12-14 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major and Local Streets, and Fire Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets for the major funds.

The basic governmental fund financial statements can be found on pages 15-23 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motor pool. Because the service benefits the General, Major and Local Streets, Fire and Water and Sewer Fund functions, the services have been allocated between the governmental and business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer Fund, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 24-29 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 30 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31-46 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds and component units are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 47-54 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$10,994,343 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets reflects its investment in capital assets (for example land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot themselves be used to liquidate these liabilities.

City of Boyne City's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 1,984,601	\$ 2,114,425	\$ 1,092,130	\$ 581,918	\$ 3,076,731	\$ 2,696,343
Capital assets	<u>3,925,363</u>	<u>3,485,466</u>	<u>6,710,913</u>	<u>5,414,283</u>	<u>10,636,276</u>	<u>8,899,749</u>
Total assets	<u>5,909,964</u>	<u>5,599,891</u>	<u>7,803,043</u>	<u>5,996,201</u>	<u>13,713,007</u>	<u>11,596,029</u>
Long-term liabilities						
outstanding	586,091	699,579	1,527,962	25,472	2,114,053	725,051
Other liabilities	<u>283,216</u>	<u>280,189</u>	<u>321,395</u>	<u>39,103</u>	<u>604,611</u>	<u>319,292</u>
Total liabilities	<u>869,307</u>	<u>979,768</u>	<u>1,849,357</u>	<u>64,575</u>	<u>2,718,664</u>	<u>1,044,343</u>
Net assets						
Invested in capital assets,						
net of related debt	3,340,863	2,765,966	5,141,114	5,414,283	8,481,977	8,180,249
Restricted	130,065	240,000	-	-	130,065	240,000
Unrestricted	<u>1,569,729</u>	<u>1,614,157</u>	<u>812,572</u>	<u>517,343</u>	<u>2,382,301</u>	<u>2,131,500</u>
Total net assets	<u>\$ 5,040,657</u>	<u>\$ 4,620,123</u>	<u>\$ 5,953,686</u>	<u>\$ 5,931,626</u>	<u>\$ 10,994,343</u>	<u>\$ 10,551,749</u>

A portion of the City's net assets (.01%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (21.7% or \$2,382,301) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$397,744 during the current fiscal year. This increase came from governmental activities such as property tax collection, grants and investment earnings.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

City of Boyne City's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue						
Charges for services	\$ 828,109	\$ 715,461	\$ 1,300,630	\$ 1,082,385	\$ 2,128,739	\$ 1,797,846
Operating grants and contributions	744,808	688,092	7,439	18,033	752,247	706,125
General revenue						
Property taxes	2,386,863	2,249,771	-	-	2,386,863	2,249,771
Grants and contributions not restricted to specific programs	367,441	398,015	-	-	367,441	398,015
Other	24,774	159,056	6,190	(110,999)	30,964	48,772
Total revenue	<u>4,351,995</u>	<u>4,211,110</u>	<u>1,314,259</u>	<u>989,419</u>	<u>5,666,254</u>	<u>5,200,529</u>
Expenses						
Legislative	18,545	17,653	-	-	18,545	17,653
General government	1,441,840	1,528,436	-	-	1,441,840	1,528,436
Public safety	732,318	681,234	-	-	732,318	681,234
Public works	1,014,263	967,903	-	-	1,014,263	967,903
Health and welfare	408,203	235,161	-	-	408,203	235,161
Recreation and cultural	242,562	258,981	-	-	242,562	258,981
Marina	80,198	80,621	-	-	80,198	80,621
Interest on long-term debt	38,382	46,490	-	-	38,382	46,490
Water and sewer	-	-	1,292,199	1,192,183	1,292,199	1,192,183
Total expenses	<u>3,976,311</u>	<u>3,816,479</u>	<u>1,292,199</u>	<u>1,192,183</u>	<u>5,268,510</u>	<u>5,008,662</u>
Increase (decrease) in net assets before transfers	375,684	394,631	22,060	(202,764)	397,744	191,867
Transfers	-	(17)	-	17	-	-
Increase (decrease) in net assets	375,684	394,619	22,060	(202,747)	397,744	191,867
Net assets -						
Beginning of year, as restated	<u>4,664,973</u>	<u>4,225,509</u>	<u>5,931,626</u>	<u>6,134,373</u>	<u>10,596,599</u>	<u>10,359,882</u>
End of year	<u>\$ 5,040,657</u>	<u>\$ 4,620,123</u>	<u>\$ 5,953,686</u>	<u>\$ 5,931,626</u>	<u>\$ 10,994,343</u>	<u>\$ 10,551,749</u>

Governmental activities: Governmental activities increased the City's net capital assets by \$375,684. Key elements of this increase are as follows:

- Although intergovernmental revenue, primarily state shared revenues, decreased by \$28,462 during the year because of appropriation cuts by the State of Michigan, property taxes increased \$137,092 due to increased taxable values and residential and industrial growth, and other revenue decreased due to the one time sale of municipal lots to the public in fiscal year 2003.

Business-type activities: Business-type activities increased the City's net assets by \$22,060 due to increases service fees to cover operating expenses.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,375,577, a decrease of \$69,081 in comparison with the prior year. Approximately \$1,249,946 constitutes *unreserved fund balance*, which is available at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed as a reserve for debt service.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance in the General Fund of \$811,381 had a balance of \$770,576 that was unreserved. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures, not including transfers to other funds. Unreserved fund balance represents 25.5% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$63,576 during the current fiscal year. This is primarily attributable to the decrease in state shared revenues and the repurchase of the Miller Street property originally sold in fiscal year 2003.

Proprietary fund. The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year amounted to \$812,572 with capital assets net of related debt of \$5,141,114. The Water and Sewer Fund had an increase in net assets of \$23,459. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights:

- Completed hiring process for several key City positions
- Repurchased Miller Street property originally sold in fiscal year 2003.
- Settled bargaining agreement with Police Officers Labor Council.
- Made major repairs to Shoppers Dock.
- Airport facility improvements and upgrades.

The original expenditures budgeted for fiscal year end 2004 budget were \$2,854,406. The amended expenditures were \$2,921,947. Actual expenditures were \$3,027,239, a negative variance of \$105,292 from the amended budget.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of April 30, 2004, amounted to \$10,636,276 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems improvements, machinery and equipment, park facilities and roads. The total increase in the City's investment in capital assets for the current fiscal year was 19%.

Major capital asset events during the current fiscal year included the following:

- Majority of Drinking Water Revolving Fund project completed.
- Initiation of major sewer system infrastructure improvements under the SRF program.

Additional information on the City's capital assets can be found in Note III.C on pages 37-40 of this report.

City of Boyne City's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 921,736	\$ 798,885	\$ -	\$ -	\$ 921,736	\$ 798,885
Land improvements	592,253	613,908	-	-	592,253	613,909
Infrastructure	508,872	168,204	-	-	508,872	168,204
Buildings, structures and systems	872,308	911,940	5,000,332	5,248,577	5,872,640	6,160,517
Equipment	968,219	980,783	70,782	81,641	1,039,001	1,062,424
Furniture and fixtures	61,975	56,596	-	-	61,975	56,595
Construction in progress	-	-	1,639,799	84,065	1,639,799	84,065
Total	<u>\$ 3,925,363</u>	<u>\$ 3,530,316</u>	<u>\$ 6,710,913</u>	<u>\$ 5,414,283</u>	<u>\$ 10,636,276</u>	<u>\$ 8,944,599</u>

Note Payable Long-Term Debt. At the end of the current fiscal year, the City had total bonded debt and notes payable outstanding of \$2,154,299 which comprises debt backed by the full faith and credit of the City. The City has also pledged its full faith and credit to the Downtown Development and Local Development Finance Authority Component Units bonded debt, note, and loan payable debt agreements of \$360,000, \$200,000, and \$1,300,135, respectively.

City of Boyne City's Outstanding Debt
(general obligation and revenue bonds)

The City's primary government has \$2,154,299 in long-term debt. The breakdown of this debt is as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
General obligation bonds \$	459,500	\$ 539,500	\$ 1,569,799	\$ -	\$ 2,029,299	\$ 539,500
Fochtman Building	<u>125,000</u>	<u>180,000</u>	<u>-</u>	<u>-</u>	<u>125,000</u>	<u>180,000</u>
Total net debt	<u>\$ 584,500</u>	<u>\$ 719,500</u>	<u>\$ 1,569,799</u>	<u>\$ -</u>	<u>\$ 2,154,299</u>	<u>\$ 719,500</u>

The City and Component Units total debt increased by \$1,793,375 (71%) during the current fiscal year, with \$1,639,799 new debt issued in the Water/Wastewater Fund.

State statute limits the amount of general obligation debt a governmental entity may issue to ten percent of the local unit's total stock equalized valuation. The current debt limitation for the City is \$20,714,625, which is significantly greater than the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note III.F on pages 41-43 of this report.

Economic Factors and Next Year's Budget Considerations

The coming fiscal year is expected to see a continuation of the challenging economic times of the past several years. The much anticipated and often predicted national economic turn-around has yet to show any real strength at the local level. The impact that this has had on the national and state budgets is continuing to cause difficulties for local government. This is seen most directly on the City in the State of Michigan's cuts in state shared revenues. Given the state's continuing and growing financial problems, the City is bracing itself for even more bad news from Lansing regarding the future of state shared revenues. Current indications from Lansing indicate that the best we can hope for is a continuation of current funding levels. This, of course, as has been demonstrated repeatedly over the past few years is subject to change. This weakness will be offset, in part, by continuing investment in the City in the terms of new construction and remodeling, which, in return, will increase property tax revenues. One such example is a significant waterfront redevelopment project which has recently been approved. When this project is completed it should provide a significant boost to the City's overall revenues.

In addition to the guarded revenue forecast, the City continues to be faced with significant expenditure increases especially in our insurance coverage for both liability and health related insurances. Although, this too, is a national issue that does not minimize its impact on the City's cost of doing business. These pressures, although they have 'moderated' down to the 11% range in 2004, are not expected to end anytime in the near future.

The City continues to move forward with its investments in its long-term health by making sure the necessary infrastructure is in place to meet current and future needs. This past year focused on major improvements to the City's water system. The coming years should see even greater levels of improvements to our sanitary sewer system. As this is written final financing arrangements through the State's low interest SRF loan program for just under 8.4 million dollars worth of improvements are being made. The resulting improvements should meet the needs of Boyne City and its surrounding customers for the next twenty years or so.

The City is fortunate to have built up significant unrestricted net assets of \$2,382,301. In a worst-case scenario, these funds provide the City both the time and the means to weather most unexpected challenges. It should be noted that there has been an increase in demand for improvements to most of the City's infrastructure systems. Those demands are currently being addressed for the City's water system with significant production, storage and distribution improvements are underway. These improvements are paid for through increased user fees (also known as rates). Design work and studies are currently underway for significant improvements to the City's sanitary sewer system. Preliminary approval for low-rate financing from the State has been received, which would also need to be repaid through future user fees.

Other areas needing attention include the City's road and sidewalk systems. Current funding takes care of basic maintenance but does not provide for significant amounts of long-term improvements in the overall systems. To better address these needs the City will have to dedicate additional sources of funding, which may include a dedicated millage for such improvements and increased use of special assessments.

The City is also exploring making improvements to its marina and boat launch to both improve the long-term economic viability of its commercial district and provide the necessary mass to allow the marina to become self-sustaining. It is anticipated that this would be financed through both grant funding and user fees.

In addition, the City is looking at its own space needs and appropriate locations for some of its departments. These investigations remain very preliminary at this time.

While there are many challenges, the City is blessed with many assets and resources to draw on. The City's recognition by the State as one of their first four Michigan Main Street Communities has been producing dividends in making sure that our original business core remains vital in the years ahead. Our location, both in northern Michigan and on the waterfront of Lake Charlevoix, is keeping us a very desired location and is helping to insure the long-term success of the community.

Requests for Information

This discussion and analysis is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager, City Hall, 319 North Lake Street, Boyne City, MI 49712 or via email at mcain@boynecity.com.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF NET ASSETS

APRIL 30, 2004

ASSETS	Primary Government			DDA Component Unit	LDFA Component Unit
	Governmental Activities	Business-type Activities	Total		
Cash and cash equivalents	\$ 1,314,094	\$ 322,671	\$ 1,636,765	\$ 166,359	\$ 423,833
Receivables	614,702	651,005	1,265,707	-	167,422
Internal balances	(118)	118	-	-	-
Prepaid items and other assets	32,713	-	32,713	-	-
Inventory	23,210	46,470	69,680	-	10,000
Restricted cash and cash equivalents	-	71,866	71,866	-	-
Land and construction in progress	921,736	1,639,799	2,561,535	-	-
Depreciable capital assets	3,003,627	5,071,114	8,074,741	597,457	291,419
					1,661,580
Total assets	5,909,964	7,803,043	13,713,007	763,816	2,554,254
LIABILITIES					
Accounts payable and accrued expenses	141,618	248,277	389,895	-	12,120
Accrued interest payable	1,598	3,118	4,716	9,746	-
Noncurrent liabilities					
Due within one year	140,000	70,000	210,000	50,000	47,500
Due in more than one year	586,091	1,527,962	2,114,053	310,000	1,452,635
Total liabilities	869,307	1,849,357	2,718,664	369,746	1,512,255
NET ASSETS					
Invested in capital assets, net of related debt	3,340,863	5,141,114	8,481,977	237,457	464,272
Restricted for					
Debt service	84,826	-	84,826	-	-
Other purposes	45,239	-	45,239	-	-
Unrestricted	1,569,729	812,572	2,382,301	156,613	577,727
Total net assets	\$ 5,040,657	\$ 5,953,686	\$ 10,994,343	\$ 394,070	\$ 1,041,999

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED APRIL 30, 2004

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary government				
Governmental activities				
City council	\$ 18,545	\$ -	\$ -	\$ (18,545)
General government	1,441,840	193,580	325,643	(922,617)
Public safety	732,318	168,267	12,555	(551,496)
Public works	1,014,263	86,633	393,629	(534,001)
Health and welfare	408,203	309,207	5,550	(93,446)
Recreation and culture	242,562	84	5,901	(236,577)
Marina	80,198	70,338	1,530	(8,330)
Interest on long-term debt	38,382	-	-	(38,382)
Total governmental activities	3,976,311	828,109	744,808	(2,403,394)
Business-type activities				
Water and sewer	1,292,199	1,300,630	7,439	15,870
Total primary government	\$ 5,268,510	\$ 2,128,739	\$ 752,247	\$ (2,387,524)
Component units				
Downtown Development Authority	\$ 93,657	\$ -	\$ -	\$ (93,657)
Local Development Finance Authority	44,281	-	-	(44,281)
Total component units	\$ 137,938	\$ -	\$ -	\$ (137,938)

Continued...

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED APRIL 30, 2004

	Primary Government			DDA	LDFA
	Governmental	Business-type	Total	Component	Component
	Activities	Activities		Unit	Unit
Changes in net assets					
Net (expense) revenue	\$ (2,403,394)	\$ 15,870	\$ (2,387,524)	\$ (93,657)	\$ (44,281)
General revenues					
Property taxes	2,386,863	-	2,386,863	226,171	183,972
Grants and contributions not restricted to specific programs	367,441	-	367,441	1,010	-
Unrestricted investment earnings	24,430	6,190	30,620	1,490	1,819
Gain on sale of capital assets	344	-	344	-	-
Total general revenues	2,779,078	6,190	2,785,268	228,671	185,791
Changes in net assets	375,684	22,060	397,744	135,014	141,510
Net assets, beginning of year	4,664,973	5,931,626	10,596,599	259,056	900,489
Net assets, end of year	\$ 5,040,657	\$ 5,953,686	\$ 10,994,343	\$ 394,070	\$ 1,041,999

Concluded

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CITY OF BOYNE CITY, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS

APRIL 30, 2004

	General	Major Street	Local Street
ASSETS			
Cash and cash equivalents	\$ 508,912	\$ -	\$ -
Taxes receivable	155,155	-	-
Accounts receivable	167,008	-	-
Due from other governmental units	92,431	42,084	16,376
Due from other funds	4,504	-	-
Inventory	8,092	-	-
Prepaid expenditures	32,713	-	-
Total assets	\$ 968,815	\$ 42,084	\$ 16,376
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 99,771	\$ 2,303	\$ 2,150
Accrued expenses	24,091	1,718	2,546
Customer deposits	2,525	-	-
Due to other funds	-	3,526	978
Deferred revenue	31,047	-	-
Total liabilities	157,434	7,547	5,674
Fund balances			
Reserved for debt service	-	-	-
Reserved for inventory	8,092	-	-
Reserved for prepaid expenditures	32,713	-	-
Unreserved			
Designated for subsequent year's expenditures, special revenue funds	-	-	-
Undesignated			
General Fund	770,576	-	-
Special revenue funds	-	34,537	10,702
Total fund balances	811,381	34,537	10,702
Total liabilities and fund balances	\$ 968,815	\$ 42,084	\$ 16,376

<u>Fire</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 286,468	\$ 91,185	\$ 886,565
-	1,580	156,735
140,068	-	307,076
-	-	150,891
-	-	4,504
-	-	8,092
-	-	32,713
<u>\$ 426,536</u>	<u>\$ 92,765</u>	<u>\$ 1,546,576</u>
\$ 344	\$ -	\$ 104,568
-	-	28,355
-	-	2,525
-	-	4,504
-	-	31,047
<u>344</u>	<u>-</u>	<u>170,999</u>
-	84,826	84,826
-	-	8,092
-	-	32,713
100,000	210	100,210
-	-	770,576
326,192	7,729	379,160
<u>426,192</u>	<u>92,765</u>	<u>1,375,577</u>
<u>\$ 426,536</u>	<u>\$ 92,765</u>	<u>\$ 1,546,576</u>

Continued ...

CITY OF BOYNE CITY, MICHIGAN

BALANCE SHEET

APRIL 30, 2004

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

Fund balances - total governmental funds	\$ 1,375,577
Amounts reported for governmental activities in the statement of net assets are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - capital assets	5,569,032
Deduct - accumulated depreciation	(2,018,080)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	31,047
An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add - net assets of governmental activities accounted for in the internal service fund	808,400
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - bonds payable	(584,500)
Deduct - accrued interest on bonds payable	(1,593)
Deduct - compensated absences and other long-term liabilities	(139,226)
Net assets of governmental activities	\$ 5,040,657

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED APRIL 30, 2004

	General	Major Street	Local Street
Revenues			
Taxes	\$ 2,358,557	\$ -	\$ -
State revenues	376,101	253,468	125,840
Local revenues	323,829	-	-
Charges for services	644,389	-	-
Contributions	-	-	-
Interest and rentals	52,620	117	58
Other revenues	38,733	-	-
Total revenues	3,794,229	253,585	125,898
Expenditures			
Current			
Legislative	18,545	-	-
General government	1,501,660	-	-
Public safety	526,199	-	-
Public works	221,766	352,241	801,776
Health and welfare	407,466	-	-
Recreation and culture	193,715	-	-
Other expenditures	90,542	-	-
Debt service			
Principal	55,000	-	-
Interest and fiscal charges	12,346	-	-
Total expenditures	3,027,239	352,241	801,776
Revenues over (under) expenditures	766,990	(98,656)	(675,878)
Other financing sources (uses)			
Transfers in	-	75,000	666,000
Transfers out	(830,566)	-	-
Total other financing sources (uses)	(830,566)	75,000	666,000
Net changes in fund balances	(63,576)	(23,656)	(9,878)
Fund balances, beginning of year	874,957	58,193	20,580
Fund balances, end of year	\$ 811,381	\$ 34,537	\$ 10,702

<u>Fire</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 28,306	\$ 2,386,863
-	-	755,409
-	-	323,829
141,429	-	785,818
-	646	646
2,976	1,310	57,081
-	-	38,733
<u>144,405</u>	<u>30,262</u>	<u>4,348,379</u>
-	-	18,545
-	-	1,501,660
129,760	-	655,959
-	509	1,376,292
-	-	407,466
-	-	193,715
-	-	90,542
-	80,000	135,000
-	25,935	38,281
<u>129,760</u>	<u>106,444</u>	<u>4,417,460</u>
<u>14,645</u>	<u>(76,182)</u>	<u>(69,081)</u>
89,566	-	830,566
-	-	(830,566)
<u>89,566</u>	<u>-</u>	<u>-</u>
104,211	(76,182)	(69,081)
<u>321,981</u>	<u>168,947</u>	<u>1,444,658</u>
<u>\$ 426,192</u>	<u>\$ 92,765</u>	<u>\$ 1,375,577</u>

Continued...

CITY OF BOYNE CITY, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED APRIL 30, 2004

**Reconciliation of the Statement of Revenues, Expenditures and Change in Fund
Balances of Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental funds \$ (69,081)

Amounts reported for governmental activities in the statement of activities are different because

Revenues in the statement of activities that do not provide current financial
resources are not reported as revenues in the funds. (17,372)

Governmental funds report capital outlays as expenditures. However, in the statement of
activities, the cost of those assets is allocated over their estimated useful lives and reported
as depreciation expense.

Add - capital outlay 600,931
Deduct - depreciation expense (204,469)

The net effect of various miscellaneous transactions involving capital assets effects net assets.

Deduct - In the statement of activities, only the gain on the sale of capital assets is reported. However,
in the governmental funds, the proceeds from the sale increase financial resources. Thus, the
change in net assets differs from the change in fund balance by the net book value of the capital
assets sold. (49,086)

Bond proceeds provide current financial resources to governmental funds in the period issued,
but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of
bond principal is an expenditure in the governmental funds, but the repayment reduces long-term
liabilities in the statement of net assets.

Add - principal payments on long-term liabilities 135,000

An internal service fund is used by management to charge the costs of certain equipment usage
to individual governmental and enterprise funds. The net revenue (expense) of the internal
service fund attributable to the governmental funds is reported with governmental activities.

Add - interest revenue from governmental internal service fund 8,591
Add - other revenue from governmental internal service fund 20,077
Deduct - net expense of certain activities of the internal service fund reported with
governmental activities (36,693)

Some expenses reported in the statement of activities do not require the use of current
financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in accrued interest payable on bonds (95)
Deduct - increase in the accrual for compensated absences (12,119)

Change in net assets of governmental activities \$ 375,684

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED APRIL 30, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 2,260,050	\$ 2,369,450	\$ 2,358,557	\$ (10,893)
State revenues	331,908	388,094	376,101	(11,993)
Local revenues	289,641	314,571	323,829	9,258
Charges for services	527,934	493,471	644,389	150,918
Interest and rentals	56,800	48,800	52,620	3,820
Other revenues	11,500	31,683	38,733	7,050
Total revenues	3,477,833	3,646,069	3,794,229	148,160
Legislative				
City commission	20,940	18,545	18,545	-
General government				
Central administration	570,105	567,603	560,573	(7,030)
Clerk - elections	2,000	1,795	1,792	(3)
Legal and accounting	87,000	86,512	86,624	112
Planning	120,254	135,145	132,732	(2,413)
Assessor	54,600	56,300	61,591	5,291
City hall and other city property	217,530	186,740	191,634	4,894
Cemetery	49,000	47,061	45,136	(1,925)
Housing commission	259,921	284,851	295,559	10,708
Community promotion	5,000	132,000	126,019	(5,981)
Total general government	1,365,410	1,498,007	1,501,660	3,653
Public safety				
Police department	547,679	537,936	526,199	(11,737)
Public works				
Airport	135,617	142,628	152,168	9,540
Marina	74,425	75,140	69,598	(5,542)
Total public works	210,042	217,768	221,766	3,998

Continued ...

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED APRIL 30, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Health and welfare				
Ambulance	\$ 296,569	\$ 278,602	\$ 407,466	\$ 128,864
Recreation and culture				
Recreation administration	214,689	212,123	189,751	(22,372)
Museum	3,672	3,940	3,964	24
Total recreation and culture	218,361	216,063	193,715	(22,348)
Other expenditures				
Other	127,985	87,680	90,542	2,862
Debt Service				
Principal payments	55,000	55,000	55,000	-
Interest and fiscal charges	12,420	12,346	12,346	-
Total debt service	67,420	67,346	67,346	-
Total expenditures	2,854,406	2,921,947	3,027,239	105,292
Revenues over (under) expenditures	623,427	724,122	766,990	42,868
Other financing sources (uses)				
Transfers out	(675,227)	(849,566)	(830,566)	19,000
Net change in fund balance	(51,800)	(125,444)	(63,576)	61,868
Fund balance, beginning of year	874,957	874,957	874,957	-
Fund balance, end of year	\$ 823,157	\$ 749,513	\$ 811,381	\$ 61,868

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL MAJOR STREET FUND

FOR THE YEAR ENDED APRIL 30, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State revenues	\$ 217,600	\$ 237,283	\$ 253,468	\$ 16,185
Interest and rentals	1,100	110	117	7
Total revenues	218,700	237,393	253,585	16,192
Expenditures				
Public works - highways and streets	550,161	361,163	352,241	(8,922)
Revenues over (under) expenditures	(331,461)	(123,770)	(98,656)	25,114
Other financing sources				
Transfers in	331,461	100,000	75,000	(25,000)
Net change in fund balance	-	(23,770)	(23,656)	114
Fund balance, beginning of year	58,193	58,193	58,193	-
Fund balance, end of year	\$ 58,193	\$ 34,423	\$ 34,537	\$ 114

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL LOCAL STREET FUND

FOR THE YEAR ENDED APRIL 30, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State revenues	\$ 88,700	\$ 124,075	\$ 125,840	\$ 1,765
Interest and rentals	-	50	58	8
Other revenues	10,000	-	-	-
Total revenues	98,700	124,125	125,898	1,773
Expenditures				
Public works - highways and streets	1,615,600	802,090	801,776	(314)
Revenues over (under) expenditures	(1,516,900)	(677,965)	(675,878)	2,087
Other financing sources (uses)				
Transfers in	420,200	660,000	666,000	6,000
Special assessment bond proceeds	1,103,800	-	-	-
Total other financing sources (uses)	1,524,000	660,000	666,000	6,000
Net change in fund balance	7,100	(17,965)	(9,878)	8,087
Fund balance, beginning of year	20,580	20,580	20,580	-
Fund balance, end of year	\$ 27,680	\$ 2,615	\$ 10,702	\$ 8,087

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FIRE FUND

FOR THE YEAR ENDED APRIL 30, 2004

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Charges for services	\$ 138,549	\$ 138,562	\$ 141,429	\$ 2,867
Interest and rentals	2,000	2,850	2,976	126
Miscellaneous revenue	5,000	-	-	-
Total revenues	145,549	141,412	144,405	2,993
Expenditures				
Public safety	722,615	158,242	129,760	(28,482)
Debt Service				
Principal	24,000	-	-	-
Interest and fiscal charges	24,000	-	-	-
Total expenditures	770,615	158,242	129,760	(28,482)
Revenues (under) over expenditures	(625,066)	(16,830)	14,645	31,475
Other financing sources (uses)				
Note proceeds	393,000	-	-	-
Transfers in	89,566	89,566	89,566	-
Total other financing sources	482,566	89,566	89,566	-
Net change in fund balance	(142,500)	72,736	104,211	31,475
Fund balance, beginning of year	321,981	321,981	321,981	-
Fund balance, end of year	\$ 179,481	\$ 394,717	\$ 426,192	\$ 31,475

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

APRIL 30, 2004

	<u>Business-type Activity</u> <u>Enterprise - Water and Sewer</u>	<u>Governmental Activity</u> <u>Internal Service - Motor Pool</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 322,671	\$ 427,529
Taxes receivable	7,748	-
Accounts receivable	293,740	-
Due from other governmental units	349,517	-
Inventory	46,470	15,118
Total current assets	<u>1,020,146</u>	<u>442,647</u>
Restricted cash and cash equivalents		
Bond and interest redemption	8,866	-
Replacement	10,000	-
Improvement	53,000	-
Total restricted cash and cash equivalents	<u>71,866</u>	<u>-</u>
Noncurrent assets		
Construction in progress	1,639,799	-
Property and equipment - net	5,071,114	374,411
Total noncurrent assets	<u>6,710,913</u>	<u>374,411</u>
Total assets	<u>7,802,925</u>	<u>817,058</u>
Liabilities		
Current liabilities		
Accounts payable	230,856	5,486
Deposits payable	12,484	-
Accrued expenses	4,937	689
Accrued interest payable	3,118	-
Current portion of bonds payable	70,000	-
Total current liabilities	<u>321,395</u>	<u>6,175</u>
Noncurrent liabilities		
Accrued compensated absences	28,163	2,365
Bonds payable, net of current portion	1,499,799	-
Total liabilities	<u>1,849,357</u>	<u>8,540</u>
Net assets		
Investment in capital assets, net of related debt	5,141,114	374,411
Unrestricted	812,454	434,107
Total net assets	<u>\$ 5,953,568</u>	<u>\$ 808,518</u>

Continued ...

CITY OF BOYNE CITY, MICHIGAN

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

April 30, 2003

**Reconciliation of Net Assets on the Statement of Net Assets for Enterprise Funds
to Net Assets of Business Type Activities on the Statement of Net Assets**

Net Assets - total enterprise funds \$ 5,953,568

Amounts reported for business type activities in the statement of net assets
are different because

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - net assets of business type activities accounted for in the internal service fund 118

Net assets of business type activities \$ 5,953,686

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

FOR THE YEAR ENDED APRIL 30, 2004

	Business-type Activity	Governmental Activity
	Enterprise - Water and Sewer	Internal Service - Motor Pool
Operating revenues		
Charges for services	\$ 1,300,630	\$ 201,878
Operating expenses		
Personnel services	330,750	51,414
Contracted services	337,684	11,999
Supplies and materials	94,688	27,066
Repairs and maintenance	54,679	55,715
Depreciation	354,983	75,617
Utilities	106,819	18,159
Total operating expenses	1,279,603	239,970
Operating income (loss)	21,027	(38,092)
Nonoperating revenues (expenses)		
Interest income	6,190	8,591
Interest expense	(11,197)	-
State grant	7,439	-
Rent	-	15,900
Other revenue	-	4,177
Total nonoperating revenues (expenses)	2,432	28,668
Change in net assets	23,459	(9,424)
Net assets, beginning of year, as restated	5,930,109	817,942
Net assets, end of year	\$ 5,953,568	\$ 808,518

Continued ...

CITY OF BOYNE CITY, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED APRIL 30, 2004

**Reconciliation of the Statement of Revenues, Expenses and Changes in Net
Assets of Enterprise Funds to the Statement of Activities**

Change in net assets - all enterprise funds \$ 23,459

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. The net revenue (expense) of the internal service fund attributable to the enterprise fund is reported with business type activities.

Deduct - net expense of certain activities of the internal service fund reported with business-type activities

(1,399)

Change in net assets of business-type activities

\$ 22,060

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED APRIL 30, 2004

	Business-type Activity Enterprise- Water and Sewer	Governmental Activity Internal Service-Motor Pool
Cash flows from operating activities		
Cash received from customers	\$ 1,260,616	\$ -
Cash received from interfund services provided	-	201,878
Cash payments to employees	(321,867)	(51,526)
Cash payments to suppliers for goods and services	(376,735)	(103,122)
Net cash provided by operating activities	562,014	47,230
Cash flows from non-capital financing activities		
State grant	7,439	-
Rental income	-	15,900
Miscellaneous income	-	4,177
Net cash provided by non-capital financing activities	7,439	20,077
Cash flows from capital and related financing activities		
Purchase of capital assets	(1,651,613)	(123,287)
Due from other governments	(349,517)	-
Proceeds from bond issuance	1,639,799	-
Restricted cash	(71,866)	-
Principal payments	(70,000)	-
Interest payments	(11,197)	-
Net cash used in capital and related financing activities	(514,394)	(123,287)
Cash flows provided by investing activities		
Interest income	6,190	8,591
Net increase (decrease) in cash and cash equivalents	61,249	(47,389)
Cash and cash equivalents, beginning of year	261,422	474,918
Cash and cash equivalents, end of year	\$ 322,671	\$ 427,529
Non-cash capital and related financing activities		
Trade-in value of a loader that was applied against the purchase of new loader	\$ -	\$ 41,400

Continued...

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED APRIL 30, 2004

	<u>Business-type Activity</u>	
	<u>Enterprise- Water and Sewer</u>	<u>Internal Service-Motor Pool</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 21,027	\$ (38,092)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	354,983	75,617
Changes in assets and liabilities which provided (used) cash		
Taxes receivable	(5,569)	-
Accounts receivable	(34,287)	-
Inventory	10,877	10,535
Accounts payable and accrued liabilities	215,141	(830)
Deposits payable	(158)	-
Net cash provided by operating activities	<u><u>\$ 562,014</u></u>	<u><u>\$ 47,230</u></u>
		Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY

STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUNDS

APRIL 30, 2004

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	<u>\$ 27,830</u>
Liabilities	
Deposits payable	\$ 12,643
Due to other governmental units	<u> 15,187</u>
Total liabilities	<u>\$ 27,830</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BOYNE CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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APRIL 30, 2004

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CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The *City of Boyne City* (the "City") is directed by a five member City Commission and a mayor elected by the City Commission. This legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services. The City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, regarding the definition of the reporting entity.

Discretely Presented Component Units

Downtown Development Authority (the "DDA")— The City Manager with approval of the City Commission appoints the members of the governing board of the Authority. The City also has the ability to significantly influence the operations of the Downtown Development Authority. During the fiscal year the DDA was renamed the Main Street Board. A complete financial statement of the Downtown Development Authority can be obtained from the City Treasurer, City of Boyne City, 319 North Lake Street, Boyne City, Michigan 49712.

Local District Finance Authority (the "LDFA")— The City Manager with approval of the City Commission appoints the members of the governing board of the authority. The City also has the ability to significantly influence the operations of the Local District Finance Authority. A complete financial statement of the Local District Finance Authority can be obtained from the City Treasurer, City of Boyne City, 319 North Lake Street, Boyne City, Michigan 49712.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes and trunkline maintenance funds, which are earmarked by State statute for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes, which are earmarked by State statute for local street and highway purposes.

The *Fire Fund* accounts for the activities of the City's fire department.

The *Water and Sewer Fund* is the City's major proprietary fund. It accounts for the activities of the City's water distribution, sewage disposal and treatment system.

Additionally, the City reports the following fund types:

The *Internal Service Fund* accounts for fleet and equipment management to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

The *Agency Funds* account for assets held for other governments in an agency capacity, including tax collections.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service

CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function, cost of building rent and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Enterprise Fund and of the government's Motor Pool Internal Service Fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use unrestricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and net assets or equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Investments are stated at fair value.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

The general fund's ambulance receivables are shown net of an allowance for uncollectible accounts. It is composed of expected Medicaid and Medicare write-offs and accounts receivable in excess of 120 days.

3. *Inventory*

Inventory held by the general, enterprise and internal service funds are valued at cost utilizing the first-in, first-out method of accounting. The cost value of such inventories has been treated as an expenditure at the time of purchase.

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government and component units are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Public domain infrastructure	20
System infrastructure	20-50
Vehicles	5-10
Equipment	5-20

CITY OF BOYNE CITY, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS

5. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick time is accumulated up to a maximum of 720 hours and upon retirement the employee will receive for sick time an amount based on the number of years of service multiplied by 1.5%. Vacation time will be paid in full. The liability for these amounts is included in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

6. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Not later than the third week in May of each year, the City Commission shall by resolution adopt a budget for the next fiscal year, shall appropriate the money needed for municipal purposes during the next fiscal year of the City and shall provide for a levy of the amount necessary to be raised by taxes upon real and personal property for municipal purposes subject to limitations.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the City Commission is the functional level, which is the level at which expenditures may not legally exceed appropriations. The City Manager may make transfers of appropriations between departments within any funds; however, any supplemental appropriations that amend the total expenditures of any fund require a City Commissioners' resolution.

B. Excess of expenditures over appropriations

For the year ended April 30, 2004, the General Fund's general government, public works, health and welfare and other functions' expenditures exceeded appropriations by \$3,653, \$3,998, \$128,864 and \$2,862, respectively. These over expenditures were funded by greater than anticipated revenues in the funds and the use of prior year fund balances.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Michigan Compiled Laws, Section 129.91 authorizes the local government unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the estate of Michigan or its political subdivisions which are rates as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Commissioners have designated four banks for the deposit of City funds. The investment policy adopted by the commission in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and certificates of deposit but not the remainder of state statutory authority as listed above.

The City's deposit and investment policy is in accordance with statutory authority.

CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Cash and cash equivalents are reported in the financial statement as follows:

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
<u>\$ 1,314,094</u>	<u>\$ 394,537</u>	<u>\$ 1,708,631</u>	<u>\$ 27,830</u>	<u>\$ 590,192</u>

The bank balance of the government's deposits is \$2,388,538. Of the bank balance, \$164,774 was covered by federal depository insurance. The remaining balance of \$2,223,764 was uninsured and uncollateralized.

B. Receivables

Receivables in the City's governmental-type activities consist of 25% due from other governments, 25% taxes receivable, 23% fire contracts receivable, 12% due from the City's Housing Commission, 3% cemetery receivables, 6% ambulance receivables, 2% sidewalk special assessments receivable, and 4% other receivables. Receivables in the business-type activities consist of 54% due from other governments, 45% due from customers and 1% taxes receivable. Receivables in the component units consist entirely of amounts due from other governments.

C. Capital assets

Primary Government

Capital assets activity in the governmental and business-type activities was as follows for the year ended April 30, 2004:

	<u>May 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>April 30, 2004</u>
Governmental activities				
Capital assets not being depreciated – land	<u>\$ 798,885</u>	<u>\$ 122,851</u>	<u>\$ -</u>	<u>\$ 921,736</u>
Capital assets being depreciated				
Land improvements	1,133,454	37,056	-	1,170,510
Infrastructure	168,204	358,029	-	526,233
Buildings and structures	1,512,689	-	-	1,512,689
Equipment	2,499,035	188,616	(88,215)	2,599,436
Furniture and fixtures	<u>101,478</u>	<u>17,667</u>	<u>-</u>	<u>119,145</u>
Total capital assets being depreciated	<u>5,414,860</u>	<u>601,368</u>	<u>(88,215)</u>	<u>5,928,013</u>

CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

	<u>May 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>April 30, 2004</u>
Less accumulated depreciation for				
Land improvements	(519,546)	(58,711)	-	(578,257)
Infrastructure	-	(17,361)	-	(17,361)
Buildings and structures	(600,749)	(39,632)	-	(640,381)
Equipment	(1,518,252)	(152,094)	39,129	(1,631,217)
Furniture and fixtures	(44,882)	(12,288)	-	(57,170)
Total accumulated depreciation	<u>(2,683,429)</u>	<u>(280,086)</u>	<u>39,129</u>	<u>(2,924,386)</u>
Total capital assets being depreciated, net	<u>2,731,431</u>	<u>321,282</u>	<u>(49,086)</u>	<u>3,003,627</u>
Governmental activities capital assets, net	<u>\$ 3,530,316</u>	<u>\$ 444,133</u>	<u>\$ (49,086)</u>	<u>\$ 3,925,363</u>
Business-type activities				
Capital assets not being depreciated				
Construction in progress	<u>\$ 84,065</u>	<u>\$1,555,734</u>	<u>\$ -</u>	<u>\$ 1,639,799</u>
Capital assets being depreciated				
Water system plant	3,550,911	14,105	-	3,565,016
Water distribution and sanitary sewer disposal	5,867,333	64,900	-	5,932,233
Equipment	<u>397,049</u>	<u>16,874</u>	<u>-</u>	<u>413,923</u>
Total capital assets being depreciated	<u>9,815,293</u>	<u>95,879</u>	<u>-</u>	<u>9,911,172</u>
Less accumulated depreciation for				
Water system plant	(1,860,980)	(164,467)	-	(2,025,447)
Water distribution and sanitary sewer disposal	(2,308,687)	(162,783)	-	(2,471,470)
Equipment	<u>(315,408)</u>	<u>(27,733)</u>	<u>-</u>	<u>(343,141)</u>
Total accumulated depreciation	<u>(4,485,075)</u>	<u>(354,983)</u>	<u>-</u>	<u>(4,840,058)</u>
Total capital assets being depreciated, net	<u>5,330,218</u>	<u>(259,104)</u>	<u>-</u>	<u>5,071,114</u>
Business-type activities capital assets, net	<u>\$ 5,414,283</u>	<u>\$1,296,630</u>	<u>\$ -</u>	<u>\$ 6,710,913</u>

CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$ 31,200
Public safety	71,082
Public works	56,055
Parks and recreation	35,561
Marina	10,571
Capital assets held by the City's internal service funds charged to the various functions based on their usage of the assets	<u>75,617</u>

Total depreciation expense – governmental activities **\$ 280,086**

Business-type activities

Water and sewer	<u>\$ 354,983</u>
-----------------	--------------------------

Discretely presented component units

Capital asset activity in the Downtown Development Authority and the Local Development Finance Authority component units was as follows:

	<u>May 1, 2003</u>	<u>Increases</u>	<u>April 30, 2004</u>
Downtown Development Authority			
Capital assets being depreciated – infrastructure	\$ 426,570	\$ 204,436	\$ 631,006
Less accumulated depreciation for infrastructure	<u>-</u>	<u>(33,549)</u>	<u>(33,549)</u>
Total capital assets being depreciated, net	<u>\$ 426,570</u>	<u>\$ 170,887</u>	<u>\$ 597,457</u>

CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

	<u>May 1, 2003</u>	<u>Increases</u>	<u>April 30, 2004</u>
Local Development Finance Authority			
Capital assets not being depreciated – land	\$ 291,419	\$ -	\$ 291,419
Capital assets being depreciated – infrastructure	1,783,929	140,982	1,924,911
Less accumulated depreciation for infrastructure	<u>(224,833)</u>	<u>(38,498)</u>	<u>(263,331)</u>
Total capital assets being depreciated, net	<u>1,559,096</u>	<u>102,484</u>	<u>1,661,580</u>
Local Development Finance Authority capital assets, net	<u>\$1,850,515</u>	<u>\$ 102,484</u>	<u>\$1,952,999</u>

D. Account payables and accrued expenses

Accounts payable and accrued expenses in the governmental activities consist of 77% vendor payables, 2% customer deposits, and 21% accrued salaries. Business-type activities payables consist of 93% vendor payables, 2% accrued salaries, and 5% customer deposits. Discretely presented component units payables consist of 100 % of vendor payables.

E. Interfund receivables, payables and transfers

The composition of interfund balances is as follows as of April 30, 2004:

<u>Due From</u>	<u>Due To General Fund</u>
Major governmental funds	
Major Streets	\$ 3,526
Local Streets	<u>978</u>
Total	<u>\$ 4,504</u>

Interfund balances represent short-term borrowings between funds for cash flow purposes.

CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

The composition of interfund transfers is as follows:

	<u>Transfers Out</u> <u>General</u> <u>Fund</u>
Transfers in	
Major Streets	\$ 75,000
Local Streets	666,000
Fire	<u>89,566</u>
Total	<u>\$ 830,566</u>

Interfund transfers are used to 1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them and 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-term liabilities

General obligation debt. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued by the component unit on behalf of the primary government. The original amount of general obligation bonds issued in prior years for the items listed below was \$880,000. No general obligation bonds were issued during the current year.

The component units' bond, note and loan payables are also general obligations of the City. The original amount of the bond and note payable was \$565,000 and \$360,000, respectively. The loan payable has a maximum loan amount of \$1,300,350. The above component units' payables were issued by the components on behalf of the primary government. No debt agreements were issued during the year ended April 30, 2004.

The business type activities bond is also a general obligation of the City. This a reimbursement bond where the City's expenditures are reimbursed with bond proceeds through the Drinking Water Revolving Fund. The amount the City has been reimbursed as of June 30, 2004 was \$1,569,799. The bond has a maximum amount of \$1,785,000.

CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

General obligation bonds and note payables are direct obligations that pledge the full faith and credit of the City. Bonds are issued as 15 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds and note payables currently outstanding are as follows:

<u>Purpose</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities			
General government – general obligation bond	4/30/2009	3.00-3.53%	\$ 459,500
General government – note payable	4/30/2006	6.90%	<u>125,000</u>
			<u>\$ 584,500</u>
Business-type activities			
General obligation bond	4/30/2022	2.50%	<u>\$ 1,569,799</u>
Component Unit - Downtown Development Authority			
General government – general obligation bond	4/30/2010	4.25-7.25%	<u>\$ 360,000</u>
Component Unit - Local Development Finance Authority			
General government – note payable	4/30/2008	0.00%	\$ 200,000
General government – loan payable	unknown	5.00%	<u>1,300,135</u>
			<u>\$ 1,500,135</u>

Annual debt service requirements to maturity for general obligation debt are as follows:

<u>Year Ending April 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Component Units</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 140,000	\$ 28,110	\$ 70,000	\$ 39,245	\$ 97,500	\$ 16,780
2006	155,000	19,588	75,000	37,495	102,500	14,233
2007	90,000	12,800	75,000	35,620	112,500	11,385
2008	95,000	8,035	75,000	33,745	112,500	8,385
2009	104,500	2,783	80,000	31,870	65,000	5,227
2010-2014	-	-	430,000	128,475	70,000	1,785
2015-2019	-	-	480,000	72,225	-	-
2020-2024	-	-	284,799	13,485	-	-
Unknown	-	-	-	-	1,300,135	-
Total	<u>\$ 584,500</u>	<u>\$ 71,316</u>	<u>\$1,569,799</u>	<u>\$ 392,160</u>	<u>\$ 1,860,135</u>	<u>\$ 57,795</u>

CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Changes in long-term liabilities. Long-term liability activity was as follows:

	<u>May 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>April 30, 2004</u>	<u>Due Within One Year</u>
<u>Primary Government</u>					
Governmental activities					
General obligation bonds \$	539,500	\$ -	\$ (80,000)	\$ 459,500	\$ 80,000
Note payable	180,000	-	(55,000)	125,000	60,000
Compensated absences	<u>127,107</u>	<u>14,484</u>	<u>-</u>	<u>141,591</u>	<u>-</u>
	<u>\$ 846,607</u>	<u>\$ 14,484</u>	<u>\$ (135,000)</u>	<u>\$ 726,091</u>	<u>\$ 140,000</u>
Business-type activities					
General obligation bonds \$	-	\$ 1,639,799	\$ (70,000)	\$ 1,569,799	\$ 70,000
Compensated absences	<u>25,472</u>	<u>2,691</u>	<u>-</u>	<u>28,163</u>	<u>-</u>
	<u>\$ 25,472</u>	<u>\$ 1,642,490</u>	<u>\$ (70,000)</u>	<u>\$ 1,597,962</u>	<u>\$ 70,000</u>
<u>Component Units</u>					
General obligation bonds \$	410,000	-	\$ (50,000)	\$ 360,000	\$ 50,000
Note payable	242,500	-	(42,500)	200,000	47,500
Loan payable	<u>1,146,559</u>	<u>153,576</u>	<u>-</u>	<u>1,300,135</u>	<u>-</u>
	<u>\$ 1,799,059</u>	<u>\$ 153,576</u>	<u>\$ (92,500)</u>	<u>\$ 1,860,135</u>	<u>\$ 97,500</u>

IV. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended April 30, 2004, the City carried commercial insurance through various commercial carriers, to cover all risks of loss. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

B. Property taxes

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Charlevoix County.

CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the state at an estimated 50% of current market value. Real and personal property in the City for the 2003 levy were assessed and equalized at \$144,570,979 (not including properties subject to Industrial Facilities Tax Exemption), representing 50% of estimated current market value. The government's general operating tax rate for fiscal year 2004 was 17.00 mills, with an additional 1.0 mill levied for water supply sewage disposal debt retirement and 1.0 mill levied for general obligation bond retirement.

Property taxes for the DDA and LDFA are derived from a tax increment financing agreement between the DDA and LDFA and other related taxing districts. Under this arrangement, the DDA and LDFA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City, which are within the DDA and LDFA district. Property taxes are recognized in the fiscal year in which they are levied.

C. Defined benefit pension plan

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, MI 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate is 0% to 1.65% of annual covered payroll. City employees are required to contribute 4.7% of their annual covered payroll. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

Annual pension cost

For the year ended April 30, 2004, the City's annual pension cost of \$127,823 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2000 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year, compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of

CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2002, the date of the last actuarial valuation, was 30 years.

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
4/30/02	\$ 103,784	100%	\$ -
4/30/03	119,487	100	-
4/30/04	127,823	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/00	\$ 4,236,396	\$ 4,826,637	\$ 590,241	88%	\$ 1,388,619	43%
12/31/01	4,594,092	5,301,464	707,372	87	1,479,431	48
12/31/02	4,839,174	5,865,628	1,026,454	83	1,590,527	65

D. Housing Commission

The City provides certain administrative services to the Boyne City Housing Commission (the "Commission"). Although the Commission was created by the City and its governing board is approved by the City, it is not part of the City's financial reporting entity. Services provided by the City to the Commission are billed at an amount that will approximately recover the City's full cost of providing such services. The basis of billing has been used by the City consistently over the years to determine the amount of revenues and expenditures arising from quasi-external transactions. Total billing for the period amounted to \$294,663 and is reported as revenue in the General Fund. A complete financial statement for the Boyne City Housing Commission can be obtained from Todd Sorenson, Executive Director, Boyne City Housing Commission, 829 South Park Street, Boyne City, MI 49712.

E. Other post-employment benefits

The City provides post-employment health benefits to thirteen members of the Police Officers Union and American Federation of State, County, and Municipal Employees Union at April 30, 2004. The cost for one- person coverage is \$125.98 per month and two-person coverage is \$264.54 per month. For the year ended April 30, 2004, the City paid \$16,226 for these benefits.

CITY OF BOYNE CITY, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS

F. Prior period adjustments

Beginning fund balance in the Internal Service Fund was increased by \$44,850 in order to correct a prior year accounting error resulting from an asset not capitalized at the proper amount in a prior year.

Beginning fund balance in the Local Development Finance Authority Fund was decreased by \$89,193 in order to correct a prior year accounting error resulting from grant expenditures not being reimbursed.

G. Commitments

The City has entered into a contract with MDC Contracting for the upgrade of their water and sewage disposal system. The total amount of the contract entered into is \$1,064,840, and costs incurred to date under the contract are \$992,467. All other contracts entered into for the upgrade of the water and sewage disposal system are complete.

H. Subsequent Event

The City entered into an installment purchase agreement in the amount of \$537,652 in July 2004 for the purchase of a fire truck. The agreement requires \$132,121 to be paid at commencement and the remaining \$405,531 to be paid in seven annual installments.

On September 22, 2004 the City issued \$8.395 million in bond proceeds for the improvements of the sewer system.

* * * * *

SUPPLEMENTARY INFORMATION

CITY OF BOYNE CITY, MICHIGAN

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

APRIL 30, 2004

	Special Revenue Fund	Debt Service Funds			
			1989 Water Supply Sewage Disposal System Improvements		Total Nonmajor Governmental Funds
	Creative Playground	1989 Street Improvements			
Assets					
Cash and cash equivalents	\$ 7,939	\$ 43,138	\$ 40,108	\$	91,185
Taxes receivable	-	790	790		1,580
Total assets	<u>\$ 7,939</u>	<u>\$ 43,928</u>	<u>\$ 40,898</u>	<u>\$</u>	<u>92,765</u>
Fund balances					
Reserved for debt service	\$ -	\$ 43,928	\$ 40,898	\$	84,826
Unreserved					
Designated for subsequent year's expenditures	210	-	-		210
Undesignated	7,729	-	-		7,729
Total fund balances	<u>\$ 7,939</u>	<u>\$ 43,928</u>	<u>\$ 40,898</u>	<u>\$</u>	<u>92,765</u>

CITY OF BOYNE CITY, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED APRIL 30, 2004

	Special Revenue Fund	Debt Service Funds		
			1989 Water Supply Sewage Disposal System Improvements	Total Nonmajor Governmental Funds
	Creative Playground	1989 Street Improvements		
Revenues				
Taxes	\$ -	\$ 14,076	\$ 14,230	\$ 28,306
Contributions	646	-	-	646
Interest and rentals	82	537	691	1,310
Total revenues	728	14,613	14,921	30,262
Expenditures				
Current				
Public works	509	-	-	509
Debt service				
Principal	-	28,000	52,000	80,000
Interest and fiscal charges	-	9,152	16,783	25,935
Total expenditures	509	37,152	68,783	106,444
Net change in fund balances	219	(22,539)	(53,862)	(76,182)
Fund balances, beginning of year	7,720	66,467	94,760	168,947
Fund balances, end of year	\$ 7,939	\$ 43,928	\$ 40,898	\$ 92,765

CITY OF BOYNE CITY, MICHIGAN

**AGENCY FUNDS
COMBINING BALANCE SHEET**

APRIL 30, 2004

	<u>Current Tax Collection</u>	<u>Environmental Escrow</u>	<u>Total Agency Funds</u>
Assets			
Cash and cash equivalents	<u>\$ 15,187</u>	<u>\$ 12,643</u>	<u>\$ 27,830</u>
Liabilities			
Deposits payable	\$ -	\$ 12,643	\$ 12,643
Due to other governmental units	<u>15,187</u>	<u>-</u>	<u>15,187</u>
Total liabilities	<u>\$ 15,187</u>	<u>\$ 12,643</u>	<u>\$ 27,830</u>

CITY OF BOYNE CITY

AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FOR THE YEAR ENDED APRIL 30, 2004

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Current Tax Collection Fund				
Assets				
Cash and cash equivalents	<u>\$ 12,645</u>	<u>\$ 7,041,544</u>	<u>\$ 7,039,002</u>	<u>\$ 15,187</u>
Liabilities				
Due to other governmental units	<u>\$ 12,645</u>	<u>\$ 7,041,544</u>	<u>\$ 7,039,002</u>	<u>\$ 15,187</u>
Environmental Escrow Fund				
Assets				
Cash and cash equivalents	<u>\$ 12,609</u>	<u>\$ 34</u>	<u>\$ -</u>	<u>\$ 12,643</u>
Liabilities				
Deposits payable	<u>\$ 12,609</u>	<u>\$ 34</u>	<u>\$ -</u>	<u>\$ 12,643</u>
Total all agency funds				
Assets				
Cash and cash equivalents	<u>\$ 25,254</u>	<u>\$ 7,041,578</u>	<u>\$ 7,039,002</u>	<u>\$ 27,830</u>
Liabilities				
Deposits payable	<u>\$ 12,609</u>	<u>\$ 34</u>	<u>\$ -</u>	<u>\$ 12,643</u>
Due to other governmental units	<u>12,645</u>	<u>7,041,544</u>	<u>7,039,002</u>	<u>15,187</u>
Total liabilities	<u>\$ 25,254</u>	<u>\$ 7,041,578</u>	<u>\$ 7,039,002</u>	<u>\$ 27,830</u>

CITY OF BOYNE CITY, MICHIGAN

BALANCE SHEET AND STATEMENT OF NET ASSETS COMPONENT UNITS

APRIL 30, 2004

	Downtown Development Authority	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 166,359	\$ -	\$ 166,359
Prepaid items	-	-	-
Due from other governmental units	-	-	-
Land	-	-	-
Other capital assets, net of depreciation	-	597,457	597,457
Total assets	<u><u>\$ 166,359</u></u>	<u><u>\$ 597,457</u></u>	<u><u>\$ 763,816</u></u>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Accrued interest payable	-	9,746	9,746
Noncurrent liabilities			
Due within one year	-	50,000	50,000
Due in more than one year	-	310,000	310,000
Total liabilities	<u><u>-</u></u>	<u><u>369,746</u></u>	<u><u>369,746</u></u>
Fund balances			
Reserved for prepaid expenditures	-	-	-
Unreserved, undesignated	166,359	(166,359)	-
Total liabilities and fund balances	<u><u>\$ 166,359</u></u>		
Net Assets			
Investment in capital assets, net of related debt		237,457	237,457
Unrestricted		156,613	156,613
Total net assets		<u><u>\$ 394,070</u></u>	<u><u>\$ 394,070</u></u>

Continued ...

Local Development Finance Authority	Adjustments	Statement of Net Assets
\$ 423,833	\$ -	\$ 423,833
10,000	-	10,000
167,422	-	167,422
-	291,419	291,419
-	1,661,580	1,661,580
<u>\$ 601,255</u>	<u>\$ 1,952,999</u>	<u>\$ 2,554,254</u>

\$ 12,120	\$ -	\$ 12,120
-	-	-
-	47,500	47,500
-	1,452,635	1,452,635
<u>12,120</u>	<u>1,500,135</u>	<u>1,512,255</u>

10,000	(10,000)	-
579,135	(579,135)	-
<u>\$ 601,255</u>		

452,864	452,864
589,135	589,135
<u>\$ 1,041,999</u>	<u>\$ 1,041,999</u>

Continued ...

CITY OF BOYNE CITY, MICHIGAN

**BALANCE SHEET
COMPONENT UNITS**

APRIL 30, 2004

	<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>
Reconciliation of Fund Balances on the Balance Sheet for Component Units to Net Assets of Component Units on the Statement of Net Assets		
Fund balances - component units	\$ 166,359	\$ 589,135
Amounts reported for component units in the statement of net assets are different because		
Capital assets used by component units are not financial resources and therefore are not reported in the funds.		
Add - capital assets	631,006	2,216,330
Deduct - accumulated depreciation	(33,549)	(263,331)
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Deduct - bonds, notes and loans payable	(360,000)	(1,500,135)
Deduct - accrued interest on bonds payable	(9,746)	-
Net assets of component units	<u>\$ 394,070</u>	<u>\$ 1,041,999</u>
		Concluded

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF ACTIVITIES AND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES COMPONENT UNITS

FOR THE YEAR ENDED APRIL 30, 2004

	<u>Downtown Development Authority</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses			
Economic development	\$ -	\$ -	\$ -
Other	246,716	(204,436)	42,280
Depreciation expense	-	33,549	33,549
Debt service			
Principal	50,000	(50,000)	-
Interest	19,155	(1,327)	17,828
Total expenditures/expenses	<u>315,871</u>	<u>(222,214)</u>	<u>93,657</u>
Program revenues			
Taxes	226,171	-	226,171
Interest and rentals	1,490	-	1,490
Contributions	1,010	-	1,010
Total program revenues	<u>228,671</u>	<u>-</u>	<u>228,671</u>
Net program expense	-	-	135,014
General revenues			
Loan proceeds	-	-	-
Net change in fund balances	(87,200)	87,200	-
Change in net assets	-	135,014	135,014
Fund balances/net assets			
Beginning of year, as restated	253,559	5,497	259,056
End of year	<u><u>\$ 166,359</u></u>	<u><u>\$ 227,711</u></u>	<u><u>\$ 394,070</u></u>

Continued ...

Local Development Finance Authority	Adjustments	Statement of Activities
\$ 146,765	\$ (140,982)	\$ 5,783
-	-	-
-	38,498	38,498
42,500	(42,500)	-
-	-	-
189,265	(144,984)	44,281
183,972	-	183,972
1,819	-	1,819
-	-	-
185,791	-	185,791
-	-	141,510
153,576	(153,576)	-
150,102	(150,102)	-
-	141,510	141,510
439,033	461,456	900,489
\$ 589,135	\$ 452,864	\$ 1,041,999

Continued ...

CITY OF BOYNE CITY, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES COMPONENT UNITS

FOR THE YEAR ENDED APRIL 30, 2004

	<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Component Units to the Statement of Activities		
Net change in fund balances - total component units	\$ (87,200)	\$ 150,102
Amounts reported for component units in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Add - capital outlay	204,436	140,982
Deduct - depreciation expense	(33,549)	(38,498)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Add - principal payments on long-term liabilities	50,000	42,500
Deduct - loan proceeds	-	(153,576)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Add - decrease in accrued interest payable on bonds	1,327	-
Change in net assets of component units	<u>\$ 135,014</u>	<u>\$ 141,510</u>
		Concluded

CITY OF BOYNE CITY , MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED APRIL 30, 2004

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM OR AWARD AMOUNT	EXPENDITURES FOR THE YEAR ENDED APRIL 30, 2004
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed through Michigan Economic Development Corporation: CDBG State Program - Aiport industrial park expansion loan	14.228	\$ 1,300,350	<u>\$ 153,576</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Passed through Michigan Department of Environmental Quality Capitalization Grants for Drinking Water State Revolving Fund	66.468	1,230,739	<u>1,130,625</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 1,284,201</u>
Reconciliation to financial statements			
Amount recorded in the LDFA component unit fund as loan proceeds			\$ 153,576
Amount recorded as bonds payable within the Water and Sewer Enterprise Fund			<u>1,130,625</u>
Total federal expenditures			<u>\$ 1,284,201</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1) Basis of presentation-

The schedule of expenditures of federal awards includes the federal grant activity of the City of Boyne City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

July 2, 2004

The Honorable Mayor and
Members of the City Commission
City of Boyne City
Charlevoix County, Michigan

We have audited the financial statements of the *City of Boyne City, Michigan* (the "City") as of and for the year ended April 30, 2004, and have issued our report thereon dated July 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated July 2, 2004.

This report is intended for the information and use of management, members of the City Commission, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Lohson



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A - 133**

July 2, 2004

The Honorable Mayor and
Members of the City Commission
City of Boyne City
Charlevoix County, MI

Compliance

We have audited the compliance of the *City of Boyne City, Michigan* (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended April 30, 2004. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended April 30, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the City Commission, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Lohson

CITY OF BOYNE CITY
Schedule of Findings and Questioned Costs
For the Year Ended April 30, 2004

SECTION 1 - SUMMARY OF AUDITORS RESULTS:

Financial Statements

Type of Auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Non-compliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Program</u>
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66.468	Capitalization Grants for Drinking Water State Revolving Fund
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Dollar threshold to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as a low risk auditee?	Yes
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CITY OF BOYNE CITY
Schedule of Findings and Questioned Costs
For the Year Ended April 30, 2004

SECTION II – FINANCIAL STATEMENT FINDINGS

No financial statement findings are reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings or questioned costs are reported.